

Working Across Cultures

MARKET LEADER



Business English

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This unit looks at the benefits and difficulties of making international mergers work.

BEFORE YOU READ

Discuss these questions.

- 1 Why do companies merge? What do they hope to achieve?
- 2 What are the typical things that go wrong in mergers and acquisitions?
- 3 What can companies do to try to ensure success in international mergers?
- 4 How can you measure whether a merger has been successful?

READING

A Understanding the main points

Read the article on the opposite page and say whether these statements are true (T) or false (F).

- 1 Most mergers succeed in cutting costs and increasing profits.
- 2 Only a very small percentage of mergers actually achieve their aims.
- 3 Successful mergers have clear aims from the beginning.
- 4 Mergers of two competitors are the most likely to succeed.
- 5 A big problem with international mergers is failure to integrate different working practices.
- 6 HP's merger with Scitex brought together two very different ways of working.
- 7 Most international mergers succeed in adding value.
- 8 Mergers often happen when one partner is not doing well.
- 9 The main measure of success in a merger is whether the merger has added value.

B Understanding details

Read the article again and answer these questions.

- 1 What are three of the main reasons for mergers and acquisitions?
- 2 What percentage of mergers are not completely successful in achieving their aims?
- 3 Why are there plenty of opportunities for things to go wrong in mergers and acquisitions?
- 4 What is a 'best-of-breed' merger?
- 5 What advice does Carolyn Firstbrook of Accenture give that might help mergers succeed?
- 6 How is Scitex's company culture described?
- 7 What can happen when there is a bad fit between corporate cultures?
- 8 How did HP manage its acquisition of Scitex?
- 9 In what ways can cultural differences between merger partners be a good thing?
- 10 What is the best way of measuring if a merger has been successful?

The art of joining different cultures



by **Kim Thomas**

A Mergers and acquisitions (M&As) provide a first-class opportunity to cut costs, increase profits and benefit from another company's knowledge and expertise. Yet surveys consistently show that a high proportion of M&As do not fulfil their objectives. One study of senior business leaders conducted by the Hay Group found that only 9 per cent of mergers were judged 'completely successful' in achieving their aims. So what goes wrong?

B Studies have found that three conditions are present when M&As take place: that it is not business as usual; there are tight timeframes, with no slack in the system; and that the people making the decisions are biased in a particular direction. These provide plenty of opportunity for things to go wrong.

C Faced with those conditions, it is essential to have strong governance and clear aims. The most successful

deals are very clear about the primary goal. Is this about cutting costs through economies of scale? Is it about acquiring a specific capability or product and leveraging that through your existing channels?

D The hardest kind of deal is the 'best-of-breed' merger with a competitor, which means bringing together two powerful management teams, merging two sets of IT systems and aligning two sets of working practices.

E Carolyn Firstbrook, European Head of Strategy at Accenture, the consultancy, maintains that setting clear targets is crucial, and emphasises the importance of managing a tight process as well as taking important decisions quickly.

F Another frequent cause of failure, says Ms Firstbrook, is to under-estimate the cultural difficulties in integrating two companies with very different working practices. When Hewlett-Packard (HP) acquired Scitex, a digital printer company based in Israel with

500 staff, it was taking over an organisation unused to big corporate practices.

G 'You're telling a fairly small, agile company, which doesn't invest a lot in processes or long-term planning, that they need to conform with necessary corporate processes that are totally alien to their culture,' says Pau Molinas, Operations Director for HP's graphics and imaging business.

H The danger is that morale will sink and people will leave the acquired organisation. In fact, says Mr Molinas, in the first 18 months after the acquisition, only four of Scitex's staff have departed. Partly, he says, this was down to the goodwill HP had already established in its acquisition of another Israeli firm, and partly it was due to the hands-off approach HP took towards Scitex: 'It was a market HP didn't have a lot of experience in. We wanted them to have a lot of freedom when it came to investment decisions. So they were teaching us, and they appreciated that.'

I Cultural differences can even add value, says Ms Firstbrook. 'A merger offers a window of opportunity,' she explains, 'when all employees are expecting and prepared for change, to introduce new ways of working that neither side may have accepted in the past.'

J But in the end, the trickiest question is: how do you know whether the merger or acquisition has been successful? Although many deals have disappointing results, it has to be remembered that a merger often happens when at least one party is already doing badly. Ideally, if you want to know if the deal is a success you should be measuring the business value compared to what would have happened if you hadn't done the deal.

FT

VOCABULARY

A Word search

Find words or phrases in the article which fit these meanings.

- 1 special skills or knowledge that you learn by experience or training (paragraph A)
- 2 when there is only just enough time (paragraph B)
- 3 flexibility, room to move or adjust (paragraph B)
- 4 judging something unfairly because of personal opinions (paragraph B)
- 5 when making things in larger quantities makes it cheaper to produce each piece (paragraph C)
- 6 getting as much advantage or profit as possible from something (paragraph C)
- 7 arranging something so that it is in a similar position to something else (paragraph D)
- 8 to think that something is smaller or less important than it is (paragraph F)
- 9 able to move quickly and easily (paragraph G)
- 10 very different and strange (paragraph G)
- 11 level of confidence and hope for the future (paragraph H)
- 12 not interfering or getting too close (paragraph H)
- 13 most difficult to deal with (paragraph J)

B Word partnerships

Find verbs in the article which go with these nouns.

- 1 costs
- 2 profits
- 3 objectives
- 4 a study
- 5 targets
- 6 decisions
- 7 an organisation
- 8 goodwill
- 9 value
- 10 a deal

C Vocabulary development

Make new word partnerships with the same meanings as those in Exercise B by combining these verbs with nouns from Exercise B.

- | | |
|----------------------------|------------------|
| 1 carry out <i>a study</i> | 6 fix |
| 2 make | 7 conclude |
| 3 reduce | 8 improve |
| 4 meet | 9 raise |
| 5 create | 10 acquire |

D Sentence completion

Use word partnerships from Exercises B and C in the correct form to complete these sentences.

- 1 A lot of *studies* have been *carried out / conducted* into why mergers often fail to deliver what they promise.
- 2 The main measure of a successful merger is whether the deal has
- 3 The first step after a merger is usually to look for ways of saving money by
- 4 A longer-term aim, once the merger integration has been completed, is to, in order to keep shareholders happy.
- 5 For some CEOs, the seems more important than making the merger work.
- 6 If a merger process is done carefully and sensitively, it can a lot of
- 7 Many mergers fail to their
- 8 In order to know whether a merger or acquisition has been successful, it is important to clear against which to measure results.
- 9 Studies show that it is important to clear and quick in the early stages of the merger.
- 10 One of the biggest challenges after is integrating two different sets of working practices.

OVER TO YOU

- 1 A study carried out by the management consulting firm AT Kearney revealed that three main types of mergers and acquisition account for over 90 per cent of all mergers and acquisitions worldwide. Match each merger type (1–3) to its description (a–c).

1 Volume extension	2 Regional extension	3 Product extension
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 - a) Merger of non-competitors that serve the same customers with different products and services. The objective is to complement the portfolio and cross-sell products and services.
 - b) Merger of direct competitors to increase market share and achieve economies of scale.
 - c) Merger of companies in the same industry, but serving different regions. The merging companies want to gain quick access to new geographic segments and local know-how or to increase global market share.
- 2 Fit these well-known mergers and acquisitions into one of the three categories in question 1.
 - a) Arcelor (Luxembourg/France) and Mittal Steel (India)
 - b) Renault (France) and Nissan (Japan)
 - c) Pepsi Co and Quaker Oats (both US)
 - d) Alcatel (France) and Lucent (US)
 - e) Daimler (Germany) and Chrysler (US)
 - f) Carrefour and Promodes (both France)
 - g) Air France (France) and KLM (Netherlands)
 - h) Wertkauf (Germany) and Wal-Mart (US)

Can you think of any other examples?
- 3 From what you know, which of these mergers have been successful and which not? Why?